



**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Financial Statements

December 31, 2001

(With Independent Auditors' Report Thereon)



2001 M Street, N.W.  
Washington, D.C. 20036

## Independent Auditors' Report on Financial Statements

To the Board of Governors of the Federal Reserve System

We have audited the accompanying balance sheet of the Board of Governors of the Federal Reserve System (the Board) as of December 31, 2001 and the related statements of revenues and expenses and changes in cumulative results of operations and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of and for the year ended December 31, 2000 were audited by other auditors who issued an unqualified opinion thereon dated February 21, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board at December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 22, 2002 on our consideration of the Board's internal control over financial reporting and its compliance with laws and regulations. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

March 22, 2002



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# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## BALANCE SHEETS

<u>ASSETS</u>	<u>As of December 31,</u>	
	<u>2001</u>	<u>2000</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 40,788,564	\$ 22,842,252
Accounts receivable	1,325,065	1,057,901
Prepaid expenses and other assets	866,407	1,108,766
Total current assets	42,980,036	25,008,919
<b>PROPERTY AND EQUIPMENT, NET (Note 5)</b>	<b>138,895,601</b>	<b>68,521,774</b>
Total assets	<u>\$ 181,875,637</u>	<u>\$ 93,530,693</u>
 <u><b>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</b></u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 16,125,797	\$ 10,702,740
Accrued payroll and related taxes	7,307,754	6,040,961
Accrued annual leave	10,732,356	8,492,728
Capital lease payable (current portion)	247,242	180,340
Unearned revenues and other liabilities	391,572	2,044,160
Total current liabilities	34,804,721	27,460,929
<b>LONG-TERM LIABILITIES</b>		
Capital lease payable (non-current portion)	80,276	280,683
Accumulated retirement benefit obligation	651,628	694,782
Accumulated postretirement benefit obligation (Note 3)	4,555,487	4,065,704
Accumulated postemployment benefit obligation (Note 4)	3,591,571	3,109,456
Total long-term liabilities	8,878,962	8,150,625
Total liabilities	43,683,683	35,611,554
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Working capital	8,175,315	(2,452,010)
Unfunded long-term liabilities	(8,798,686)	(7,869,942)
Net investment in property and equipment	138,815,325	68,241,091
Total cumulative results of operations	138,191,954	57,919,139
Total liabilities and cumulative results of operations	<u>\$ 181,875,637</u>	<u>\$ 93,530,693</u>

See accompanying notes to financial statements

# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS

	For the years ended December 31,	
	2001	2000
<b>BOARD OPERATING REVENUES</b>		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	\$ 295,055,600	\$ 188,067,200
Other revenues (Note 6)	8,747,799	10,099,585
Total operating revenues	303,803,399	198,166,785
<b>BOARD OPERATING EXPENSES</b>		
Salaries	132,647,612	118,632,019
Retirement and insurance contributions	22,277,244	19,945,692
Contractual services and professional fees	19,339,948	14,503,464
Depreciation and net losses on disposals	10,394,156	8,855,763
Postage and supplies	8,252,490	5,839,569
Utilities	5,880,777	6,249,503
Software	5,415,856	4,192,658
Travel	5,037,577	5,769,788
Repairs and maintenance	4,201,386	3,375,478
Equipment and facilities rental	3,830,557	5,075,502
Printing and binding	2,095,676	2,047,590
Other expenses (Note 6)	4,157,305	5,085,135
Total operating expenses	223,530,584	199,572,161
<b>RESULTS OF OPERATIONS</b>	80,272,815	(1,405,376)
<b>ISSUANCE AND REDEMPTION OF FEDERAL RESERVE NOTES</b>		
Assessments levied on Federal Reserve Banks for currency costs	338,537,426	435,837,762
Expenses for currency printing, issuance, retirement and shipping	338,537,426	435,837,762
<b>CURRENCY ASSESSMENTS OVER (UNDER) EXPENSES</b>	0	0
<b>TOTAL RESULTS OF OPERATIONS</b>	80,272,815	(1,405,376)
<b>CUMULATIVE RESULTS OF OPERATIONS, Beginning of year</b>	57,919,139	59,324,515
<b>TRANSFERS TO THE U.S. TREASURY</b>		
Transfers from surplus Federal Reserve Bank earnings (Note 1)	0	3,752,000,000
Transfers to the U.S. Treasury (Note 1)	0	(3,752,000,000)
<b>CUMULATIVE RESULTS OF OPERATIONS, End of year</b>	\$ 138,191,954	\$ 57,919,139

See accompanying notes to financial statements

# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>RESULTS OF OPERATIONS</b>		
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and net losses on disposals	10,394,156	8,855,763
(Increase) decrease in assets:		
Accounts receivable, prepaid expenses and other assets	(24,805)	(499,519)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	5,423,057	(1,657,349)
Accrued payroll and related taxes	1,266,793	(1,049,793)
Accrued annual leave	2,239,628	429,073
Unearned revenues and other liabilities	(1,652,588)	(303,143)
Accumulated retirement benefit obligation	(43,154)	(52,935)
Accumulated postretirement benefit obligation	489,783	450,876
Accumulated postemployment benefit obligation	482,115	528,377
Net cash provided by (used in) operating activities	<u>98,847,800</u>	<u>5,295,974</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposals	119,013	44,400
Capital expenditures	<u>(80,886,996)</u>	<u>(13,609,871)</u>
Net cash provided by (used in) investing activities	<u>(80,767,983)</u>	<u>(13,565,471)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital lease payable	(133,505)	(77,499)
Capital lease obligations incurred	0	116,340
Net cash provided by (used in) financing activities	<u>(133,505)</u>	<u>38,841</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	17,946,312	(8,230,656)
<b>CASH BALANCE, Beginning of year</b>	<u>22,842,252</u>	<u>31,072,908</u>
<b>CASH BALANCE, End of year</b>	<u><u>\$ 40,788,564</u></u>	<u><u>\$ 22,842,252</u></u>

See accompanying notes to financial statements

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

**(1) SIGNIFICANT ACCOUNTING POLICIES**

Organization - The Federal Reserve System was founded by Congress in 1913 and consists of the Board of Governors (Board) and twelve regional Reserve Banks. The Board was established as a federal government agency and is supported by Washington staff numbering about 1,700, as it carries out its responsibilities in conjunction with other components of the Federal Reserve System. The accompanying financial statements include only the operations and activities for the Board.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting.

Revenues - Assessments for operating expenses and additions to property are based on expected cash needs. Amounts over or under assessed due to differences between actual and expected cash needs flow into "Cumulative Results of Operations" during the year.

Issuance and Redemption of Federal Reserve Notes - The Board incurs expenses and assesses the Federal Reserve Banks for the costs of printing, issuing, shipping, and retiring Federal Reserve Notes. These assessments and expenses are separately reported in the statements of revenues and expenses because they are not Board operating transactions.

Property and Equipment - The Board's property, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years for furniture and equipment and from 10 to 50 years for building equipment and structures. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Federal Reserve Bank Surplus Earnings - The Federal Reserve Act, as amended, required that \$3,752,000,000 of surplus Federal Reserve Bank earnings be transferred from the Banks to the Board and then to the U. S. Treasury in 2000.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain 2000 amounts have been reclassified to conform with the 2001 presentation.

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

**(2) RETIREMENT BENEFITS**

Substantially all of the Board's employees participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan). The System Plan is a multi-employer plan which covers employees of the Federal Reserve Banks, the Board, and the Plan Administrative Office.

Employees of the Board who entered on duty prior to 1984 are covered by a contributory defined benefits program under the System Plan. Employees of the Board who entered on duty after 1983 are covered by a non-contributory defined benefits program under the System Plan. Contributions to the System Plan are actuarially determined and funded by participating employers at amounts prescribed by the System Plan's administrator. Based on actuarial calculations, it was determined that employer funding contributions were not required for the years 2001 and 2000, and the Board was not assessed a contribution for these years. Excess Plan assets are expected to continue to fund future years' contributions. Because the plan is part of a multi-employer plan, information as to vested and nonvested benefits, as well as plan assets, as it relates solely to the Board, is not readily available.

A relatively small number of Board employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The Board matches employee contributions to these plans. These defined benefit plans are administered by the Office of Personnel Management. The Board's contributions to these plans totaled \$308,000 and \$266,000 in 2001 and 2000, respectively. The Board has no liability for future payments to retirees under these programs, and it is not accountable for the assets of the plans.

Employees of the Board may also participate in the Federal Reserve System's Thrift Plan. Under the Thrift Plan, members may contribute up to a fixed percentage of their salary. Board contributions are based upon a fixed percentage of each member's basic contribution and were \$5,540,000 and \$5,133,000 in 2001 and 2000, respectively.

Effective January 1, 1996, Board employees covered under the System Plan are also covered under a Benefits Equalization Plan (BEP). Benefits paid under the BEP are limited to those benefits that cannot be paid from the System Plan due to limitations imposed by Sections 401(a)(17), 415(b) and 415(e) of the Internal Revenue Code of 1986. Section 401(a) of the Code was amended to increase the contribution limitation base for highly paid employees to \$170,000 from \$160,000 effective in 2000. This increase resulted in a reduction in the benefit obligation of the BEP for 2000. Pension costs attributed to the BEP reduce the pension costs of the System Plan. Activity for the BEP for 2001 and 2000 is summarized in the following table:

	2001	2000
<u>Change in Benefit Obligation</u>		
Benefit Obligation at Beginning of Year	\$ 1,804	\$ 631,264
Service Cost	450	544
Interest Cost	112	99
Plan Participants' Contributions	0	0
Plan Amendments	0	(552,770)
Actuarial (Gain)/Loss	(241)	(69,229)
Benefits Paid	0	(8,104)
Benefit Obligation at End of Year	<u>\$ 2,125</u>	<u>\$ 1,804</u>

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
<u>Change in Plan Assets</u>		
Fair Value of Plan Assets at Beginning of Year	\$ 0	\$ 0
Actual Return on Plan Assets	0	0
Employer Contributions	0	8,104
Plan Participants' Contributions	0	0
Benefits Paid	0	(8,104)
Fair Value of Plan Assets at End of Year	<u>\$ 0</u>	<u>\$ 0</u>
<u>Reconciliation of Funded Status at End of Year</u>		
Funded Status	\$ (2,125)	\$ (1,804)
Unrecognized Net Actuarial (Gain)/Loss	(329,169)	(358,390)
Unrecognized Prior Service Cost	(1,170,405)	(1,287,253)
Unrecognized Net Transition (Asset)/Obligation	850,071	952,665
Prepaid/(Accrued) Postretirement Benefit Cost	<u>\$ (651,628)</u>	<u>\$ (694,782)</u>
<u>Weighted-average assumptions as of December 31</u>		
Discount Rate	7.00%	7.50%
Expected Asset Return	N/A	N/A
Salary Scale	4.50%	5.00%
Corridor	10.00%	10.00%
<u>Components of Net Periodic Expense for Year</u>		
Service Cost	\$ 450	\$ 544
Interest Cost	112	99
Expected Return on Plan Assets	0	0
Amortization of Prior Service Cost	(116,848)	(116,848)
Recognized Net Actuarial Gain	(29,462)	(31,220)
Amortization of Net (Asset)/Obligation	102,594	102,594
Net Periodic Benefit Expense	<u>\$ (43,154)</u>	<u>\$ (44,831)</u>

**(3) POSTRETIREMENT BENEFITS**

The Board provides certain life insurance programs for its active employees and retirees. Activity for 2001 and 2000 is summarized in the following table:

	2001	2000
<u>Change in Benefit Obligation</u>		
Benefit Obligation at Beginning of Year	\$ 4,255,290	\$ 4,096,411
Service Cost	133,550	126,076
Interest Cost	345,753	312,298
Plan Participants' Contributions	0	0
Plan Amendments	95,993	0
Actuarial (Gain)/Loss	1,037,839	(278,501)
Benefits Paid	0	(994)
Benefit Obligation at End of Year	<u>\$ 5,868,425</u>	<u>\$ 4,255,290</u>



**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
<u>Change in Plan Assets</u>		
Fair Value of Plan Assets at Beginning of Year	\$ 0	\$ 0
Actual Return on Plan Assets	0	0
Employer Contributions	0	994
Plan Participants' Contributions	0	0
Benefits Paid	0	(994)
Fair Value of Plan Assets at End of Year	<u>\$ 0</u>	<u>\$ 0</u>
<u>Reconciliation of Funded Status at End of Year</u>		
Funded Status	\$ (5,868,425)	\$ (4,255,290)
Unrecognized Net Actuarial (Gain)/Loss	1,216,945	189,586
Unrecognized Prior Service Cost	95,993	0
Unrecognized Net Transition Obligation	0	0
Prepaid/(Accrued) Postretirement Benefit Cost	<u>\$ (4,555,487)</u>	<u>\$ (4,065,704)</u>
<u>Components of Net Periodic Expense for Year</u>		
Service Cost	\$ 133,550	\$ 126,076
Interest Cost	345,753	312,298
Amortization of Prior Service Cost	0	0
Amortization of (Gains)/Losses	10,477	13,497
Total Net Periodic Expense	<u>489,780</u>	<u>451,871</u>

The liability and costs for the postretirement benefit plan were determined using discount rates of 7.00 percent and 7.50 percent as of December 31, 2001 and December 31, 2000, respectively. Unrecognized losses of \$1,216,945 and \$189,586 as of December 31, 2001 and 2000, respectively, result from changes in the discount rate used to measure the liabilities. Under Statement of Financial Accounting Standards No.106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, the Board may have to record some of these unrecognized losses in operations in future years. The assumed salary trend rate for measuring the increase in postretirement benefits related to life insurance was an average of 5 percent.

The above accumulated postretirement benefit obligation is related to the Board sponsored life insurance programs. The Board has no liability for future payments to employees who continue coverage under the federally sponsored programs upon retiring. Contributions for active employees participating in federally sponsored programs totaled \$5,364,000 and \$4,792,000 in 2001 and 2000, respectively.

**(4) POSTEMPLOYMENT BENEFIT PLAN**

The Board provides certain postemployment benefits to eligible employees after employment but before retirement. Effective January 1, 1994, the Board adopted Statement of Financial Accounting Standards No. 112, *Employers' Accounting for Postemployment Benefits*, which requires that employers providing postemployment benefits to their employees accrue the cost of such benefits. Prior to January 1994, postemployment benefit expenses were recognized on a pay-as-you-go basis.

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
<u>Change in Benefit Obligation</u>		
Benefit Obligation at Beginning of Year	\$ 3,109,456	\$ 2,581,079
Service Cost	755,135	721,293
Interest Cost	115,142	159,808
Plan Participants' Contributions	0	0
Plan Amendments	0	0
Actuarial (Gain)/Loss	(129,585)	(29,733)
Benefits Paid	(258,577)	(322,991)
Benefit Obligation at End of Year	<u>\$ 3,591,571</u>	<u>\$ 3,109,456</u>

**(5) PROPERTY AND EQUIPMENT**

The following is a summary of the components of the Board's property and equipment, at cost, net of accumulated depreciation.

	<u>As of December 31,</u>	
	2001	2000
Land and improvements	\$ 18,640,314	\$ 1,301,314
Buildings	104,403,830	45,233,537
Furniture and equipment	54,301,936	49,090,528
Software	9,215,280	7,883,210
Construction in process	6,901,864	9,725,857
	193,463,224	113,234,446
Less accumulated depreciation	(54,567,623)	(44,712,672)
Property and equipment, net	<u>\$ 138,895,601</u>	<u>\$ 68,521,774</u>

Furniture and equipment includes \$864,000 for capitalized leases as of December 31, 2001 and 2000. Accumulated depreciation includes \$510,000 and \$366,000 for capitalized leases as of December 31, 2001 and 2000, respectively. The Board paid interest in the amount of \$32,201 and \$70,830 for 2001 and 2000, respectively.

The Board began the Eccles Building Infrastructure Enhancement Project in July 1999. This \$12.5 million project, scheduled for nineteen phases over three and a half years, includes asbestos removal, lighting and plumbing improvements, cabling and other enhancements. Multiple phases will be in process at the same time.

In 2001, the Board purchased land and building located at 1709 New York Avenue, N.W., Washington, DC. This purchase increased land and improvements by \$17,339,000 and buildings by \$48,727,000 for 2001.

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

**(6) OTHER REVENUES AND OTHER EXPENSES**

The following are summaries of the components of Other Revenues and Other Expenses.

	As of December 31,	
	2001	2000
<b>Other Revenues</b>		
Data processing revenue	\$ 4,427,360	\$ 4,817,207
Subscription revenue	869,595	1,079,822
Reimbursable services to other agencies	568,753	607,716
National Information Center	25,591	2,606,998
Miscellaneous	2,856,500	987,842
Total other revenues	<u>\$ 8,747,799</u>	<u>\$ 10,099,585</u>
<b>Other Expenses</b>		
Tuition, registration and membership fees	\$ 1,472,539	\$ 1,429,231
Subsidies and contributions	851,225	837,071
Miscellaneous	1,833,541	2,818,833
Total other expenses	<u>\$ 4,157,305</u>	<u>\$ 5,085,135</u>

**(7) COMMITMENTS**

The Board has entered into several operating leases to secure office, training and warehouse space for periods ranging from one to ten years. Minimum future commitments under those leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 2001, are as follows:

2002	\$ 162,840
2003	151,038
2004	157,079
2005	163,363
2006	71,991
after 2006	0
	<u>\$ 706,311</u>

Rental expenses under the operating leases were \$171,000 and \$155,000 in 2001 and 2000, respectively.

**(8) FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL**

The Board is one of the five member agencies of the Federal Financial Institutions Examination Council (the "Council"). During 2001 and 2000, the Board paid \$293,000 and \$256,000, respectively, in assessments for operating expenses of the Council. These amounts are included in other expenses for 2001 and 2000.



2001 M Street, N.W.  
Washington, D.C. 20036

## **Independent Auditors' Report on Internal Control over Financial Reporting**

To the Board of Governors of the Federal Reserve System

We have audited the financial statements of the Board of Governors of the Federal Reserve System (the Board) as of and for the year ended December 31, 2001, and have issued our report thereon dated March 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the Board's internal control over financial reporting by obtaining an understanding of the Board's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board and management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

March 22, 2002





2001 M Street, N.W.  
Washington, D.C. 20036

## **Independent Auditors' Report on Compliance with Laws and Regulations**

To the Board of Governors of the Federal Reserve System

We have audited the financial statements of the Board of Governors of the Federal Reserve System (the Board) as of and for the year ended December 31, 2001, and have issued our report thereon dated March 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of the Board is responsible for complying with laws and regulations applicable to the Board. As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board and management, the U.S. Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 22, 2002

